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C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 000179

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SUBJECT: MORALES GOVERNMENT GENERATES HOPE, CONCERN

Classified By: Amb. David N. Greenlee for reasons 1.4 (b) and (d).

11. (C) Summary: WHA Assistant Secretary Thomas Shannon held a series of meetings on January 22 with Santa Cruz business leaders, media and political analysts, opposition leader Jorge "Tuto" Quiroga, and Spanish Secretary of Foreign Affairs Bernardino Leon on the margins of the Morales inauguration. Reaction to the new Morales government varied widely: analysts were relieved by his clear victory but concerned about the lack of checks and balances on government power; Spanish Secretary of Foreign Affairs Bernardino Leon was cautious about engaging Morales, but hoped to continue with police cooperation; Santa Cruz business leaders were pessimistic about the government's plans but hesitant about confronting it head-on; and would-be opposition leader Jorge "Tuto" Quiroga expressed hostility toward the new government and seemed eager to facilitate its failure by abdicating any role of loyal opposition, even if to the detriment of the Bolivian people. End summary.

ANALYSTS RELIEVED BUT CONCERNED ABOUT FUTURE

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12. (SBU) Meeting with political and media analysts, A/S Shannon said that Morales' election responded to an indisputable democratic process and that the USG recognized and respected his mandate. Shannon said the United States was open to dialogue with the new government, and that the results of that dialogue, and the government's own decisions and actions, would determine the kind of relationship we could have. The analysts emphasized the MAS's almost unlimited political power, the need for consensus and participation during Bolivia's political transition, and the importance of the U.S. role in those changes.

13. (SBU) Several analysts commented on a lack of any countervailing political force to the MAS's power base. They noted the MAS fully controlled the executive, and had the majority of congress, including the presidency of both the Senate and Chamber of Deputies. Additionally, the opposition, led by defeated Podemos candidate Jorge "Tuto" Quiroga, was weak and fragmented. Favorable public opinion (74 percent) gave the Morales administration an even stronger mandate. Based on these factors, analysts stated that the MAS would be solely responsible for the government's success

or failure. They evinced relief that Morales had won by such a large margin, but also concern that the euphoria of power would lead the government to continue past corrupt practices, feeding on the belief that it's now "our turn." They also speculated that Morales would be tempted by his unchecked power to go too far (e.g. toward an authoritarian system). Others expressed concern that Morales had promised too much on the campaign trail, and would face strong pressure from his party and from social sectors to deliver on a mountain of nearly impossible expectations in the months ahead.

14. (SBU) Other analysts expressed hope that Morales would seek consensus and expand political participation in the coming upheaval of Bolivia's political system. One indigenous leader lamented that the 2004 popular participation law did not improve indigenous involvement in politics, and that the majority remained sidelined politically. She advocated more direct democratic representation, particularly for the Constituent Assembly (now planned for August). Another analyst opined that Morales was not the answer to Bolivia's crisis, which was rooted in the structure of the state rather than the relatively superficial problem of one particular government or another. He speculated that Morales would be the last president in this transitional period, as opposed to the first president of a new era.

15. (SBU) Many analysts believed the United States would play a critical role during the Morales administration. They stressed that the MAS would need the United States to govern, and noted Morales' concern that several ministries were heavily influenced by U.S. or foreign governments. An economic analyst urged the USG to move quickly to provide

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economic support to Bolivia, because under a "wait and see" approach, in the absence of an FTA or an extension of ATPDEA benefits, Bolivia would be forced to look for other markets. They pointed out that because Bolivia was so dependent on regional markets, the Free Trade Agreement of the Americas (FTAA) was more important than a bilateral agreement or the Andean FTA. One analyst categorically stated that the GOB "can't live with indifference from Washington," and that its success would depend on its ability to cooperate with the USG.

#### SPANISH HOPE TO CONTINUE POLICE COOPERATION

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16. (C) Spanish Secretary of Foreign Affairs Bernardino Leon told A/S Shannon he was concerned about the erratic nature of Morales' inaugural speech (ref). He noted that Morales' frequent mention of the evils of the colonial period had implicitly targeted Spain. Nonetheless, the Spanish government hoped to continue its assistance to the Bolivian police, but would watch the new government carefully for the next 5-6 months before making any commitments. Such cooperation with the police was important to Spain, said Leon, because of "recent approaches by ETA representatives to people close to Morales." On counternarcotics, Leon believed Morales was worried about recertification. Shannon suggested that the Spanish emphasize to Morales the importance of a three-pronged approach to narcotrafficking -- eradication, interdiction and alternative development -- and welcomed increased European involvement in this area. Leon said he was somewhat reassured by Morales' promise to fight illegal cocaine trafficking.

17. (SBU) Leon mentioned his recent meeting with the Brazilians and Argentines regarding natural gas. He said both governments remained keenly interested in accessing more Bolivian gas, but multinational firms such as Petrobras and Repsol were reluctant to make additional investments in Bolivia absent international guarantees. Leon continued that some kind of Mercosur guarantee could be given to provide necessary assurances to investors while also holding the GOB accountable to the Mercosur governments for compliance with the new contracts. In a side comment about Argentina, Leon

said he was "not sure about Kirchner either because he too has been erratic of late."

#### SANTA CRUZ BUSINESS LEADERS PESSIMISTIC

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18. (C) Gabriel Dabdoub, President of the Santa Cruz Chamber of Industry, Commerce, Services, and Tourism, told A/S Shannon he worried that President Morales would move Bolivia in the direction of Chavez and Castro, gradually consolidating power and shifting the country leftward, away from market-oriented policies toward greater state control of the economy. Branko Marinkovic, President of the Santa Cruz Federation of Private Businessmen, echoed Dabdoub's concerns, saying he expected the next year to be difficult, particularly if the incoming administration or the proposed Constituent Assembly introduced radical changes to laws governing the private sector. For now, they said, they would adopt a "wait and see" attitude, conducting business as usual but preparing to offer constructive criticism of unfavorable government policies. Marinkovic remarked that several issues -- the nationalization of the hydrocarbons sector, the redistribution of large land holdings, and the indefinite postponement of international bidding for the right to develop Mutun, one of the world's largest iron ore deposits -- could revive calls for greater regional autonomy, which could strain relations with the new administration and make it harder for Morales to govern.

#### TUTO QUIROGA HOSTILE TOWARD MORALES GOVERNMENT

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19. (C) Jorge "Tuto" Quiroga explained his presidential defeat as part of the populist wave sweeping South America. He told A/S Shannon that the MAS had pumped up expectations among the general population but had low capacity to deliver results -- a recipe for future disaster. Quiroga likened the social sector movements to bull fights, and that Morales had ridden

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on bulls to power. Now, he continued, President Morales was the bullfighter who would have to control the bulls. Quiroga believed that he would have to use the United States, the IMF, or Quiroga himself as the "red cape" to continue to irritate and control them. But Quiroga would not allow himself to be used in this way. Instead, he planned to facilitate MAS initiatives in Congress, and even to allow the more ill-advised of those to be passed unchanged by the legislature in order to ensure that the blame for Bolivia's impending disorder be placed squarely on Morales' shoulders. The former president conceded that this was not responsible economically, but contended that it would be politically effective.

110. (C) Outside Congress, Quiroga would challenge Morales on the GOB's establishment of low (concessionary) gas prices for Brazil and Argentina, and demand explanations for the MAS' complicity in Bolivia's subsidizing its wealthier neighbors. Quiroga lamented that the MAS would dismantle many of the democratic institutions which had taken years to build, and said that MAS attacks on the superintendencias (government regulators for telecommunications, hydrocarbons, banks and other sectors) and the Central Bank would damage Bolivia's economy. Concerning the relationship between Morales and Garcia Linera, Quiroga said the strain was already evident. He believed, "as one who has a PhD in presidential and vice-presidential intrigue," that Garcia Linera, as a result of presidential envy and the pressure of Morales' social sector supporters, would be pushed out of the center of political power within six months.

111. (U) This message was not/not cleared by A/S Shannon.  
GREENLEE